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# Economic Review – January 2020

Following a stellar 2019, global equities declined in January as the spread of coronavirus reduced investors' risk appetite. As sentiment turned during the month, markets participants turned towards perceived safe havens, such as government and investment grade corporate bonds, alongside gold and currencies such as the US dollar and the Japanese yen.

- After rallying the first half of January and carrying on the strong momentum from the end of 2019, US equities gave up their gains to end the month flat overall. Despite easing trade tensions with the phase one signed on 15 January and stable US economic data, mounting fears over the spread of coronavirus, in China and beyond, weighted on the stock market progress. Energy stocks were especially hard hit. The oil price fell steeply as the virus outbreak led to expectations of lower Chinese demand, adding to already cautious guidance from major oil producers. More defensive areas such as utilities performed better, with IT also holding up well in light of the trade war ceasefire.

- Negative news flow from China about the spread and severity of the coronavirus led to a large sell-off across European stock markets as well. The MSCI EMU lost -1.7% over the month. The weakest sectors during the month included energy, materials and consumer discretionary. Industries with significant exposure to China, such as luxury goods, underperformed. UK equities fell as well, reversing the post-election gains and puncturing the "Boris Bounce" to end the month in negative territory. Sterling was volatile, recovering sharply towards month-end after the Bank of England kept interest rates unchanged, taking off guard market expectations which had predicted a cut.

- The Japanese market fell 2.1% in January, impacted by the coronavirus news coverage and the sudden escalation of tension between the US and Iran. Despite an initial improvement in sentiment mid-month, Asia ex japan equities naturally declined. Emerging markets followed the same path. Thailand and the Philippines were the weakest markets in the MSCI Asia ex Japan index, with tourism expected to be impacted by reduced visitors from China.

- Driven by falling government bond yields, investment grade corporate bonds enjoyed a strong start to the year. The US 10-year Treasury yield fell from 1.92% to 1.51%, while the two-year yield fell from 1.57% to 1.31%. In Europe, the German 10-year yield fell from -0.19% to -0.43% with France's falling from 0.12% to -0.18%. Corporate bonds produced positive overall returns, led by investment grade, as global yields declined, but underperformed government bonds.